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Greenfield Investments: An Economic and Financial Key Driver for India's Growth

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Abstract

Since ages, India has held the flagship of being prosperous, economically viable, financially sound, rich in resources, and diverse in traditional and cultural aspects, yet has never failed to cater to the needs of crores of citizens. The economic factors and flow of financial wherewithal have pushed Indian economy to the brighter side of development. However, the growth aspects led to a significant decrease in the climatic and weather conditions and therefore an urgent need to mend up the environmental issues. Greenfield investments were sought as remedial measure to sustain the issues of environment as well as economic and financial feasibility in the form of investments. Investment is a gizmo for creating wealth by employing funds with an intention of achieving additional income or growth in the value and gets rewarded by return. Foreign direct investment (FDI) is such an investment wherein foreign investors make their funds employable in the foreign-based company either through greenfield investments, brownfield investments, or through portfolio investment. In Indian context, overseas investments can be made either through automatic route or through Reserve Bank of India and Government of India. The highlight of this paper is the significance of greenfield investments in the developmental aspects of Indian economy.

Keywords: Foreign direct investment; Greenfield investment; Portfolio investment; Automatic route; Environmental issues; Foreign investors; Global partners; Government of India.

1. INTRODUCTION

It is unrealistic to imagine that a nation can fulfill the requirements of its compatriots on self-sufficiency criterion. Investments, particularly foreign in nature, are the most sorted methods to fill in the financial gaps of an economy. In 1991, India along with the rest of the countries welcomed global investments in the form of foreign direct investment (FDI). FDI forms the basis of equity availability of pecuniary funds for the economic progress of any nation. India is sought as the most favorable destination by foreign companies to benefit rationally lesser wage rates, project-specific funding facilities such as tax immunity, etc. The major pace was taken by greenfield investments that not only fulfills the capital requirements but also brings technical knowhow, business expertise, generating employment and knowledge of business environment. Greenfield is a project that is free from constraints imposed by previous work. Construction on greenfield lands does not need restructuring or demolishing any preexisting structure.

United Nations Framework Convention on Climate Change (UNFCCC) brought into existence the Kyoto Protocol, an universal agreement on March 21, 1994, to assist in developing national programs by its signatories to reduce global warming consequences. On February 16, 2005, the Kyoto Protocol was amended by 188 member nations ("Annex I countries") (FCCC/INFORMAL/84, 1992, p. 23). Moreover, it was concluded

Flowchart 1: Diagrammatic Representation of Clean Development Mechanism (CDM)



that policies that can bring down the levels of greenhouse gas emissions to the 1990 level would be devised. Carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), perfluorocarbons (PFCs), hydrofluorocarbons (HFCs), and sulfur hexafluoride (SF₆) that are termed as greenhouse gases effect the balance of energy of the earth's atmosphere by increasing the global average temperature, termed as global warming (United Nations Framework Convention on Climate Change Handbook, 2006, pp. 22–23). As per the Intergovernmental Panel on Climate Change, established by the United Nations Environment Programme and the World Meteorological Organization in 1988, “the long-term effects of global warming would include a general rise in sea level around the world, resulting in the inundation of low-lying coastal areas and the possible disappearance of some island states; the melting of glaciers, sea ice, and Arctic permafrost; an increase in the number of extreme climate-related events, such as floods and droughts, and changes in their distribution; and an increased risk of extinction for 20–30% of all plant and animal species” (United Nations Framework Convention on Climate Change Handbook, 2006, p. 54). The Kyoto Protocol took into serious concern most of the Annex I signatories to the UNFCCC (consisting of members of the Organization for Economic Cooperation and Development and several countries with “economies in transition”) as obligatory targets of emission reduction, which were distinct and diverse for each member nation on the basis of its unmatched state of affairs. Developing countries on the other hand, which were signatories to the UNFCCC and the protocol, were not bound to curtail their emissions.

The Kyoto Protocol was formed on the basis of Clean Development Mechanism to assist either Annex I or non-Annex I countries attain fungible credits to decrease greenhouse gas emissions that were the resultant of the working of climate protection projects.

2. LITERATURE SURVEY

It is a unanimously acknowledged fact that FDI inflows largely benefit the host country. UNCTAD (1999) stated that transnational corporations can improve local growth and development efforts by (i) fueling in more financial funds for development; (ii) elevating export competitiveness; (iii) increasing the skill base and creating employment opportunities; (iv) protecting the environment by satisfying obligation toward social responsibility; and (v) augmenting technological skills through transfer, dissemination, creation, and innovation.

2.1. As per **The 2018 AT Kearney, Foreign Direct Investment Global Confidence Index**, it has become an inevitable practice to frame and execute those business policies and tactics regarding FDI which are backed by their investors' conviction. Today's global economy has become an island, where FDI serves as lifeblood for balancing market proposition.

2.2. According to the **World Investment Report 2018**, in 2017, the FDI flows decreased by 23% globally. Intercountry investments in developed and transition economies decreased piercingly, while the growth in FDI inflows stood near zero in developing economies. As per the report statistics over 100 countries have

abided the improved manufacturing strategies of late. Innovative industrial policies have been conceived and brought into practical usage to comprehend the pros and cons related to a modern industrial uprising.

2.3. As per the report published in **July 2018, The National Investment Promotion and Facilitation Agency of India**, in the financial year 2018–2019, India is giving a rational thought to invest approximately US\$ 92 billion on infrastructure programs. This initiative will be bridging the gap of investment requisition of US\$770 billion by providing immense opportunities for public–private partnership association. World Bank estimates project India as one of the fastest-growing large economies with the GDP hike of 7.3% in 2019 and 7.5% in 2020. The per-capital income of India is expected to increase by 125%.

2.4. As per the data released by the **Chinese General Administration of Customs 2018**, the unilateral business showed an upward trend of all times of US\$84.44 billion in 2017. Government of India is giving thrust to electric vehicles, as there is immense prospective in this sector to emerge as a world leader.

2.5. The UNCTAD Investment Trends Monitor October 2016 stated that primary economic indicators projected a downfall in FDI flows in 2016. The report projected decline by 10–15%, resulting from instability of global economy and the invariable flaw of widespread demand, sluggish growth in few export-oriented countries, and fall in profits of multinational enterprises in 2015. Above and beyond to 2016 decrease in FDI flows, in 2017 and 2018, the FDI flows were expected to experience an upward trend on its graph and was expected that FDI flows would do a business of over \$1.8 trillion, thereby proving the estimated increase in global FDI growth.

2.6. Olafur Margeirsson February 2015 in his paper titled “Foreign Direct Investment: A Focused Literature Review” discussed that FDI is often debated as one of the ways developing economies have to progress faster and match with developed economies, from where maximum FDI activities arise. However, FDI can have a variety of unanticipated and even unfavorable consequences for an economy. As such, it is fundamentally important for policy makers to recognize the shortcomings and prospective effects of FDI, particularly in the context of sustainable economic advancement.

2.7. A report by **National Council of Applied Economic Research 2009 titled “FDI in India and its Growth Linkages”** stated that, both at macroeconomic and microeconomic levels, FDI proves advantageous to the economy, also it is uniformly significant to investigate whether the countryside and semiurban population gets benefitted through FDI inflows. Small cities or pastoral and semiurban areas are considered as potentially prospective areas to cater the employment requirement of labor-intensive sectors.

Maharashtra, Gujarat, Tamil Nadu, Karnataka, and West Bengal states of India have more count of FDI-enabled plants as compared to the rest of the Indian geographical area. Striking ratio of production plants are situated in cities with inhabitants not more than 5,00,000. Market capitalization of not less than two-fifth originates in these cities. Similarly, Andhra Pradesh, Karnataka, Maharashtra, and Tamil Nadu are prominent destinations for FDI-enabled service facilities. The percentage of service amenities sited in small cities is not of remarkable importance as in manufacturing plants. Approximately 15.6 lakh persons get employment in FDI-enabled firms of which about 4–5% gets occupied in the manufacturing sector. About 7.9 lakh workers get employment in small cities particularly in sectors such as transport equipment, cultivation and processing of crops, edifice parts, textiles, and nonmetallic mineral goods.

2.8. Marimoutou, Peguin, and Peguin-Feissolle (2009) have focused on the problem between trading partners caused by the distance, by assuming the change in the variables in a standard gravity model. The geographical gap between destinations can be sought as a factor to enter a market (known as fixed cost). The cost of entry was stated to be directly proportional to the distance; thus, to bear a high cost of entry, it becomes a necessity to have an outsized market.

2.9. Kimura and Todo (2007) investigated how overseas assistance generates FDI flows into nations of low economic status. For this purpose, gravity equation-type evaluation was performed on outsized data of home and host countries. Their experiential framework enabled them to differentiate among three effects of assistance on FDI, “firstly a positive ‘infrastructure effect’, secondly a negative ‘rent-seeking effect’, and finally a positive ‘vanguard effect’, which is explicit to the same source-recipient country pair of aid and FDI. Their empirical analysis suggested that foreign aid in general does not essentially have an infrastructure, rent-seeking, or vanguard effect.”

2.10. Study conducted by Mencinger’s (2003) chalked out that imports can be promoted on the basis of funds created through the FDI flows in the form of M&A activity. This can have a depressing impact on the balance of payments.

3. PRESENT STATE OF STUDY

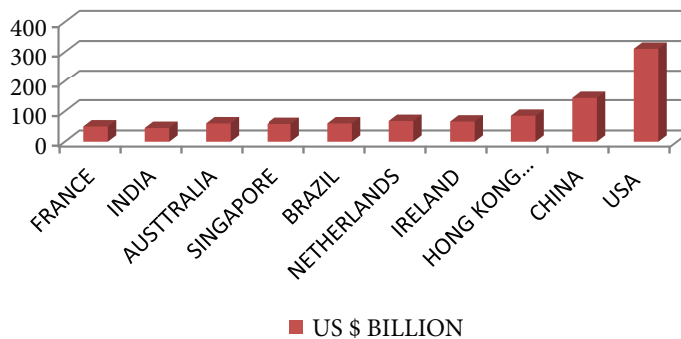
India has maintained its position among the apex beneficiary of greenfield FDI from the Commonwealth for the period 2005–2016. India had maintained the first position in greenfield FDI investments in 2015 and 2016. According to FDI Intelligence (an FT data division) in 2016, India earned global capital (greenfield) investments with \$62.3 billion of FDI proposals. Though, in 2017, the United States snatched the position from India, recording greenfield FDI investments of USD 87.4 billion.

The Government of India’s effortlessly adaptive and liberal policy management and healthy commerce and trade ambiance have ensured the flow of foreign capital into the nation where numerous initiatives have been made of late such as liberating FDI regulations in sectors including telecom, power exchanges, defense, government-backed oil refineries, and stock markets. As per the information released by International Finance Corporation (IFC), India has committed to reduce the emissions of its GDP intensity considerably between 2018 and 2030, by offering an environmentally friendly investment prospective of \$3 trillion.

Chart 1 depicts the FDI inflows into the top 10 destinations of the world in 2018, where India holds the 10th position. The first position is grabbed by the United States, the second position by China, and the third by Hong Kong, China. On the other hand, Chart 2 demonstrates the aggregate FDI inflows in Indian economy from 2012 to 2018. The year 2015–2016 and 2016–2017 experienced growth in FDI inflows but it dipped by 23% in 2017–2018.

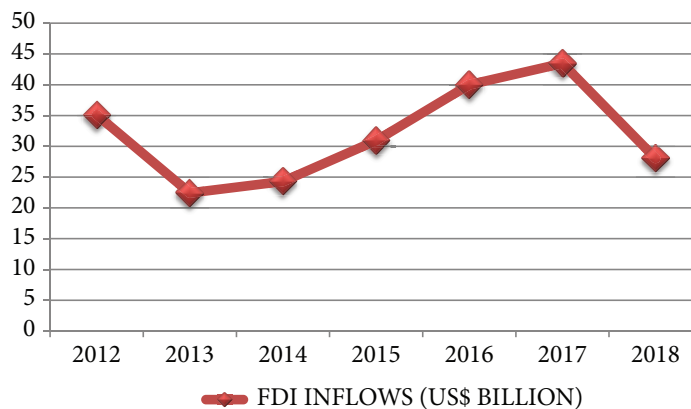
As per the April–June 2018 reports of Department of Industrial Policy and Promotion (DIPP), India earned US\$ 12.75 billion of the overall FDI, which demonstrates the efforts of the government to boost

Chart 1. Global FDI Inflows in 2018.



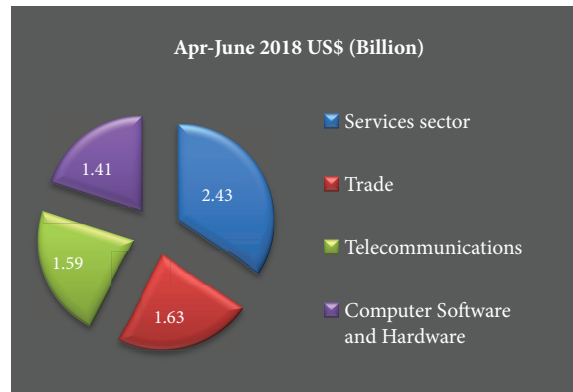
Source: UNCTAD Global Investment Trend Monitor, 2018.

Chart 2. Total FDI Inflows in India.



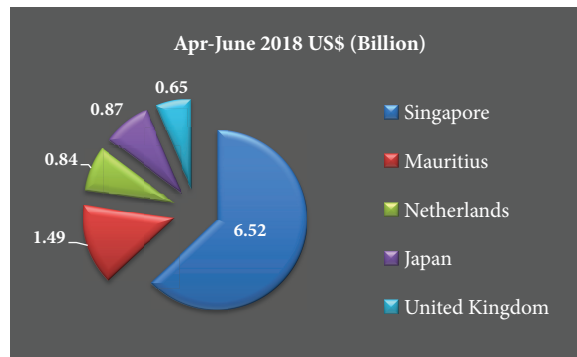
Source: UNCTAD Global Investment Trend Monitor, 2018.

Chart 3. Sector-Wise FDI Equity Inflows.



Source: Ministry of Commerce and Industry, Department of Industrial Policy and Promotion.

Chart 4. Country-Wise FDI Equity Inflows in India.



Source: Ministry of Commerce and Industry, Department of Industrial Policy and Promotion.

business prospects and provide liberal aspects in FDI norms to yield good returns. The receipts of FDI in India in the month of April–June 2018 are illustrated in Charts 3 and 4.

As per a study by the multilateral agency, India would require hefty investments to reduce carbon increase in diverse sectors such as agriculture, energy, infrastructure, and transport. The world’s third biggest economy has said that, by 2030, efforts will be made to diminish carbon emissions rate by 35% as compared to 2005 levels to accomplish the Paris agreement.

Largest investment opportunity lies in green buildings, as India requires 70% of buildings by 2030. This includes 20 million homes in the urban area and 10 million rural homes to meet the government’s ambitious requirement of “Housing for All by 2022” plan. As per the anticipation made by IFC, the accommodation sector has an investment potential of \$1.4 trillion, of which the residential sector will contribute \$1.25 trillion and \$228 billion is estimated from marketable buildings.

3.1. Following are the highlights of greenfield investments in India in 2018 as per the report of The Commonwealth:

- Warburg Pincus, an America-based private concern, purchased 20% stake in Bharti Airtel’s DTH segment in August 2018 for around \$350 million as approved by the Government of India.
- Merger of Vodafone–Idea in June 2018 made it the leading telecom operator after Department of Telecommunication (DoT) of India granted 100% FDI approval as appealed by Idea.
- 77% stake of Flipkart was acquired in May 2018 by Walmart for US\$ 16 billion.

- Multipurpose stores and know-how centers were declared to be established in the state of Maharashtra by IKEA in February 2018 of up to Rs 4000 crores (US\$ 612 million).
- In the Indian North-East region, 39 MoUs amounting to approximately Rs. 5000 crores (US\$ 765 million) were approved in November 2017.
- FDI projects of Damro Furniture and Supr Infotech Solutions in retail segment were granted approval by the Department of Industrial Policy and Promotion (DIPP) in December 2017; on the other hand, two more FDI projects worth Rs 532 crores (US\$ 81.4 million) were sanctioned by the Department of Economic Affairs, Ministry of Finance.
- Foreign investment projects worth Rs 24.56 crores (US\$ 3.80 million) were pulled down by the Department of Economic Affairs, Government of India in October 2017.
- Mr. Varun Choudhary, Executive Director, CG Corp Global a Kathmandu-based conglomerate acknowledged that their group is planning to invest in its food and beverage business Rs 1000 crores (US\$ 155.97 million) in India by 2020.
- An investment of approximately US\$ 6 billion in a number of viable and inexhaustible energy programs will be made in India under the umbrella of International Finance Corporation (IFC) by 2022.

3.2. Government Initiatives

- To enhance the Insurance intermediaries sector, Government of India is deeming to sanction 100% FDI.
- Foreign investment up to 49% (not exceeding more than 49% directly or indirectly) was allowed by the Government of India in Air India in January 2018.
- In Real Estate Broking Services, 100% FDI is allowed, without government approval.
- To boost Japanese investments inflows, the Indian Government directed the states to reinforce the one-step clearance method in September 2017.
- Ministry of Commerce and Industry has stated that Government of India has liberalized the system of sanctioning for FDI projects by making it compulsory to consider all plans and projects in need of authorization up to 70 days after the acceptance of application.
- To promote Make in India initiative and to create employment opportunities, the Government of India is considering to further relax FDI in defense under the automatic route to 51% from the current 49% with its stakeholders.
- 100% FDI was allowed by the Government of India in solo brand retail in the course of automatic route, in January 2018.

3.3. The economic and financial factors that affect the greenfield FDI investments inflows are as follows:

(a) Human Resource: It is among the most vital determinants of economic growth of a nation. The growth of an economy can be straightforwardly be affected by the qualitative aspects such as skills, creative abilities, training and education, and count of existing human factor. If a nation anticipates high economic yield, then the human resource of the country has to be well experienced and efficient to ensure high quality livelihood. As is the case of India, deficiency of experienced labor hurdles economic growth, whereas excess of labor holds minimal importance in the growth of an economy. Thus, a country's human resource should be adequate in qualitative and quantitative aspects to gain anticipated economic growth.

(b) Natural Resources: A nation's economic growth is affected to a huge intensity by the count of its natural resources. Elements formed by nature either on the land, namely plants, water resources, and landscape, or underneath the land such as oil, natural gas, metals, nonmetals, and minerals are termed natural resources. The natural wherewithals of a nation are based on the climatic and ecological factors. Countries blessed by abundance of natural resources enjoy superior survival aspects and vice versa. Skills and abilities of human resource, usage of technology, and funds availability can make efficient utilization or exploitation of natural resources. Not only skilled and educated workforce can lead a country's economy on the growth path, but also natural resources contribute for the same.

(c) Capital Formation: Producing and/or acquiring land, building, machinery, power, transportation, and medium of communication form parts of capital formation. Capital formation pushes the accessibility of

capital per worker, which leads to capital/labor ratio. Therefore, it achieves the national objectives of increase in output and economic growth by accelerating the productivity of labor.

(d) Technological Development: Technological development is the applicability of scientific methods and production techniques. If a nation wants to grow rapidly and in minimum time duration, then right selection of technological development is to be focused upon. The consequence of choosing inapt technology is high cost of production.

(e) Social and Political Factors: Ethnicity, ideals and psychology of the citizens leading to the growth of an economy to a substantial level are termed as social factors. On the other hand political factors, refers to government participation in designing and executing various policies thus accelerating economic growth.

4. CONCLUSION AND FUTURE IMPLICATION

As per a recent market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA), India has been cited as a flourishing and promising market for global partners (GP) investment in the years to come. UBS report as well states that over the next five years the yearly FDI receipts in the country are anticipated to increase to US\$ 75 billion. The World Bank has acknowledged that in 2018–2019 the private investments are projected to increase by 8.8% in India, thereby leading the gross domestic product (GDP) of India from past years private utilization index of 7.4%. Therefore, it will be justified to quote that the growth and development in all the spheres of Indian economy will surely take place resulting in upgradation in the industrial aspects thereby increasing the employability, optimum utilization of resources as well as funding and aid provisions to the needy.

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